

## SOCIAL SAFETY NET PROGRAM

(CO-0247)

### EXECUTIVE SUMMARY

<b>Borrower and guarantor:</b>	Government of Colombia	
<b>Executing agency:</b>	Administrative Department of the Presidency (DAPRE) through the Investment Fund for Peace (FIP)	
<b>Amount and Source:</b>	IDB: (OC)	US\$270 million
	Local:	<u>US\$116 million</u>
	Total:	US\$386 million
<b>Terms and conditions:</b>	Amortization period:	25 years
	Grace period:	3 years
	Disbursement period:	3 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	Single Currency Facility in US\$
<b>Objectives:</b>	<p>The program has short-, medium-, and long-term objectives. In the short term, program activities will help to mitigate the effects of the economic crisis on the very poor. Over the medium and longer term, it is expected that the subprograms for youth worker training and family support will help to institutionalize mechanisms to support and encourage investment in human capital and to provide a more effective social safety net for vulnerable sectors of the Colombian population. The target groups are families in the lowest two deciles of income distribution, which have been most seriously affected by the recession now gripping the country.</p>	
<b>Description:</b>	<p>The program consists of three main courses of action: employment, worker training, and family support. Although in the short term these subprograms will help to mitigate the effects of the economic crisis on incomes of the target population, they are expected to produce medium and long-term benefits as well. For each of these subprograms, self-targeting and/or geographic targeting mechanisms will be applied, supplemented by the beneficiary identification and selection system (SISBEN), which is described in paragraphs 2.3 and 2.4.</p>	

**Employment subprogram (US\$162 million):** This subprogram has the short-term objective of raising the income of the very poor (approximately 160,000 people) while the recession persists, through programs to generate employment for unskilled labor, by providing cofinancing for small basic infrastructure projects and community projects in low-income urban areas, preferably with a high content of unskilled labor. It will also support neighborhood improvement programs, social and community infrastructure, and expanded coverage of residential public utility service.

**Youth worker training subprogram (US\$65.5 Million):** The principal objective of this subprogram is to improve job opportunities for approximately 100,000 low-income youth between the ages of 18 and 25, in the first and second deciles of SISBEN, in seven of the country's major cities (Bogota, Medellín, Cali, Barranquilla, Bucaramanga, Manizales, and Cartagena) where unemployment is highest. The program will provide training for young people at the semiskilled level, including a classroom phase of up to 350 hours, of which between 50 and 100 hours must be devoted to vocational training activities. This training will be followed by a three-month period of full-time practical working experience in industry, directly related to the training received during the classroom phase. The training entities will identify these practical work assignments in advance, and will thereby ensure that the courses offered are relevant in terms of effective demand in industry.

**Family support subprogram (US\$98.4 Million):** The purpose of this subprogram is to encourage families living in extreme poverty (decile 1 of SISBEN) to increase and maintain investment in their children's human capital. To achieve this, the subprogram has four objectives: a) to increase school attendance and reduce primary and secondary school dropout rates; b) to supplement the incomes of families in extreme poverty with children under seven in order to augment their food budget; c) to provide more health care for children under seven; and d) to improve the child-upbringing practices in terms of health, nutrition, early stimulation and domestic violence.

The instrument for achieving these objectives is a conditional grant that provides beneficiary mothers with direct financial support, in exchange for the fulfillment of commitments by the family. Such an instrument has been found to be much more effective and efficient than in-kind subsidy programs, and it is expected that, if proven effective here, it will gradually replace other less effective and outdated programs.

Based on the assessment, the subprogram will consist of two elements: a school subsidy and a food and health subsidy, the amounts of which will be inflation adjusted to maintain their real value over time.

**The Bank's  
country and  
sector strategy:**

In response to the problems identified, the government has embarked on an economic program to reverse the situation, with the cooperation of the Bank and other multilateral and bilateral financial agencies. This economic adjustment program is supported by a US\$2.70 billion enhanced structural adjustment facility with the IMF for the next three years, together with a financial package of US\$4.20 billion from the multilateral banks, to which the IDB will contribute up to US\$1.70 billion. As part of this agreement, the Colombian government will earmark each year for the next three years the equivalent of 0.3% of GDP (between US\$250 million and US\$300 million) for strengthening its social safety net, with support from both the Inter-American Development Bank and the World Bank. The IDB will provide financing of US\$270 million and the World Bank US\$250 million in income support for the most vulnerable social groups, to help avoid permanent damage to their human and social capital, and to lay the groundwork for lifting themselves out of extreme poverty by enhancing their employability and their capacity to generate income in the medium and long term.

The country paper, approved by the Programming Committee of the Board of Executive Directors on 11 August 1999, focuses the Bank's activities on five objectives: a) supporting the peace process and its sustainability, by facilitating dialogue and national consensus; b) reducing poverty and inequality, by supporting the formation of human capital and enhancing access to productive activities and basic social services; c) consolidating the decentralization process, by strengthening civil society and local and regional institutions through a consensus-based approach to regional government; d) modernizing the state apparatus, through structural reform of institutions and public finances, including strengthening regulatory mechanisms; and e) promoting sustainable growth, by cooperating in the rehabilitation or creation of economic infrastructure and environmental protection in order to enhance productivity, with the participation of the private sector.

The proposed program fits in with this strategy, particularly with respect to the objective of poverty and inequality reduction through its focus on protecting the human capital of the most vulnerable groups at a time of socioeconomic crisis, through programs of job creation, youth worker training and income support for families most affected by the country's current critical situation.

Although the Colombian government is currently funding a series of programs that target vulnerable groups, they are of limited coverage, with little capacity for immediate expansion, some are not very effective, and others do not target the neediest groups. The principal social programs, which absorb most social spending, are those of the Colombian Institute for Family Welfare (ICBF), the Social Solidarity Network, and the National Apprenticeship Service (SENA). Consulting services have recently been retained to examine these programs in depth, and the results will be assessed by the banks and the Colombian authorities at the first annual meeting, in order to arrive at decisions on the reallocation of funds from less efficient programs. As noted earlier, the country does not have effective mechanisms for assisting the unemployed or for guaranteeing a minimum family income in emergencies. Over the short run, the employment, youth worker training and family support subprograms proposed here will provide a swift, efficient and targeted response for the families most affected by the recession gripping the country. Over the medium and longer term, the program will help to lay the foundations for developing an effective and permanent national system of social protection that will allow vulnerable families to cope with natural or economic emergencies in the future.

**Environmental  
and social  
review:**

The principal beneficiaries of the family support subprogram are families in the poorest quintile of the population, with school-age or younger children (under seven years). The school grant will protect and increase the human capital of these families and improve their prospects for earning higher incomes in the future. Similarly, the food and health grant will have positive effects on developing the human capital of these poor families. As well, actions under this subprogram will promote the advancement of women by helping to consolidate the family unit and giving decision-making power over family income to mothers or female heads of household, who will be the recipients and administrators of the family grants. At the same time, these recipients can be expected to provide local leadership in promoting community participation in project execution and supervision.

Works under the employment subprogram will by their nature have a positive environmental impact. Funding will be provided for the construction or rehabilitation of health centers and posts, school classrooms, and recreational facilities. Funding will also be provided for the construction of pedestrian access and the expansion or installation of water supply and sewer systems, and, on a reduced scale, of low-income housing. In all cases, project evaluation will include an analysis of environmental impacts, using the guidelines and methodology of FINDETER for projects of this type.

The design of the employment and worker training subprograms includes mechanisms to encourage women's participation. In particular, communications relating to the subprograms will contain specific messages directed at potential female beneficiaries.

**Benefits:**

**Impact on poverty.** The employment subprogram is expected to ensure that a total of 160,000 people, currently unemployed and with few resources, receive not only a working wage but the opportunity to integrate themselves into the labor market, at least temporarily. Although a program of this kind cannot hope to resolve the country's difficult unemployment situation, its impact on the incomes and well-being of direct and indirect beneficiaries should extend well beyond the period during which workers will be employed on the projects. On one hand, since a significant proportion (perhaps 50%) of the unemployed are the victims of structural unemployment, the fact that they can enter the labor market for even a few months will allow them to retrieve lost skills, restore their self-esteem, and establish links with potential future employers, which will serve to make them more employable and help them generate stable incomes once they leave the program. On the other hand, it is expected that the works to be carried out will help improve the economic, social and community infrastructure of low-income localities.

Similarly, the training and work experience provided under the youth worker training subprogram for more than 100,000 poor young beneficiaries between 18 and 25 will offer concrete opportunities for occupational and social integration to a group that is at very high risk, and this is expected to contribute as well to reducing the risk that these young people will fall victim to drug addiction, crime and violence.

Although the youth worker-training program will not provide young people with jobs directly, it will help them obtain the skills necessary to compete for employment, by broadening the coverage and enhancing the efficiency of the job training market in Colombia.

Finally, the potential impact of the family support subprogram on inequality and poverty could be substantial, as shown in the simulation results provided in Table IV-1. The program will thus have an important impact on the human capital of poor groups.

Evaluations of similar conditional transfer programs show that they have produced significant increases in school attendance and the use of basic health services and have gone a long way towards fostering a more balanced and nutritional diet for children, with resulting positive, long-term impacts on human capital formation for families participating in the program. Every additional year of schooling is

associated with better prospects for completing the school cycle, improving scholastic performance and earning higher incomes in the future. At the same time, improving nutrition and health for children under seven years has a permanent impact on their future growth and development.

**Risks:**

**Employment subprogram.** There is a risk that the municipalities will not contribute the expected counterpart resources. This risk is mitigated by the subprogram's design, which sets variable percentages for cofinancing, depending on the fiscal capacity of the municipality and the impact that the economic crisis has had on it.

As with any program of this type, there is a risk that municipalities will not have the capacity to carry out the projects. This risk is mitigated by the participation of NGOs and workers' cooperative enterprises (EATs) as administrators of funding

**Youth worker training subprogram.** There is a risk of slippage in the pace of project execution. This risk has been mitigated by adopting a gradual approach to implementation, whereby the subprogram will begin in Bogota during the first year, and will then be extended to Medellín and Cali, and later to the rest of the seven participating cities.

Another risk to this subprogram relates to the response capacity of the various participating players. This risk was addressed during the preparatory stage by a series of studies examining the capacity to provide training and the willingness of potential beneficiaries, training entities and companies to participate in the subprogram, which demonstrated that there is an adequate response capacity from the private sector and positive expectations for the program on the part of the major stakeholders involved.

**Family support subprogram.** A key assumption for the success of this program is the existence of an adequate supply of services that can respond promptly to the growth in demand generated by the cash transfer. For this reason, adequate supply is a precondition for municipal participation in the subprogram. The current status of supply in education and health services was examined in the selected municipalities, in terms of their capacity to absorb the growing demand that will be generated by the grants, and steps have been taken to strengthen the supply of services.

The concept of distributing cash transfers may arouse concerns over

the potential for political misuse of resources by local governments. The program will ensure transparency and will mitigate the risk of corruption in the handling of funds through proper targeting, supervision, auditing, communication and evaluation, as described in paragraph 4.30.

The program includes financial responsibilities that will have to be assumed by the national budget, once the Banks end their participation. According to preliminary estimates, funding for the program at its maximum coverage level will represent 8% of central government social spending in 1998, 3.6% of total central government spending, and 0.4% of GDP, levels that should be manageable even without the savings that could be achieved by redirecting and/or consolidating existing social programs. Since the program represents a direct investment in human capital, its related costs should not be viewed as recurring costs in the traditional sense. Nevertheless, given the government's intention to transform it into a permanent program, the funding of grants will be a recurrent expense and will be assumed by the government over time. For this reason, the program will finance decreasing portions of the grants. The Colombian authorities have expressed their intention to redirect resources from existing, less effective programs, and to eliminate those that are not fulfilling the purposes for which they were established.

**Special  
contractual  
clauses:**

As contractual condition precedent to the first disbursement:

- a. An agreement must have been reached on a mechanism to transfer funds to DAPRE-FIP through a special foreign-currency account designated for the project with the Banco de la República (see paragraph 3.1).
- b. The National Coordination Unit (NCU) must have been formed and its principal officers hired (see paragraph 3.6).
- c. For each subprogram, it must be demonstrated, to the Bank's satisfaction, that: (i) the Operating Regulations previously agreed on with the Bank for the respective subprogram are in effect, and (ii) the temporary information systems for each project subprogram have been designed and developed and its main functionalities installed for testing by the NCU (see paragraph 3.10).
- d. The agreements with "participatory executing agencies" must

have been signed (see paragraph 3.12, 3.24 and 3.32).

- e. Personnel must have been selected to work in the subprogram coordinating units (see paragraph 3.13, 3.23 and 3.32).

**Social equity  
and poverty  
reduction  
classification:**

This operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation qualifies as a poverty-targeted investment (PTI), since it is expected that more than 50% of beneficiaries will be persons falling below the Bank's official poverty line for Colombia. The borrower will be using the 10% age points in additional financing.

**Exceptions to  
Bank policy:**

None

**Procurement:**

The limits applicable to Colombia for the procurement of goods and services and the contracting of works are US\$350,000 and US\$5 million, respectively. The program does not call for works of this magnitude, however. Bidding on contracts for amounts below these thresholds will be conducted in accordance with national legislation, which requires public competitive bidding for purchases exceeding the equivalent of US\$130,000.